



NAVAL  
POSTGRADUATE  
SCHOOL

# Contracting Processes, Internal Controls, and Procurement Fraud: A Knowledge Assessment

**Juanita M. Rendon  
Rene G. Rendon**

The Nation's Premiere Defense Research University  
Monterey, California  
[WWW.NPS.EDU](http://WWW.NPS.EDU)

## Report Documentation Page

*Form Approved  
OMB No. 0704-0188*

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE <b>MAY 2015</b>	2. REPORT TYPE	3. DATES COVERED <b>00-00-2015 to 00-00-2015</b>		
4. TITLE AND SUBTITLE <b>Contracting Processes, Internal Controls, and Procurement Fraud: A Knowledge Assessment</b>			5a. CONTRACT NUMBER	
			5b. GRANT NUMBER	
			5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)			5d. PROJECT NUMBER	
			5e. TASK NUMBER	
			5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Naval Postgraduate School, Monterey, CA, 93943</b>			8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)			10. SPONSOR/MONITOR'S ACRONYM(S)	
			11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>				
13. SUPPLEMENTARY NOTES <b>Presented at the 12th Annual Acquisition Research Symposium held May 13-14, 2015 in Monterey, CA.</b>				
14. ABSTRACT				
15. SUBJECT TERMS				
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>		
18. NUMBER OF PAGES <b>29</b>	19a. NAME OF RESPONSIBLE PERSON			



- Background
- Theoretical Foundation
- Research Methodology
- Research Findings
- Implications of Research



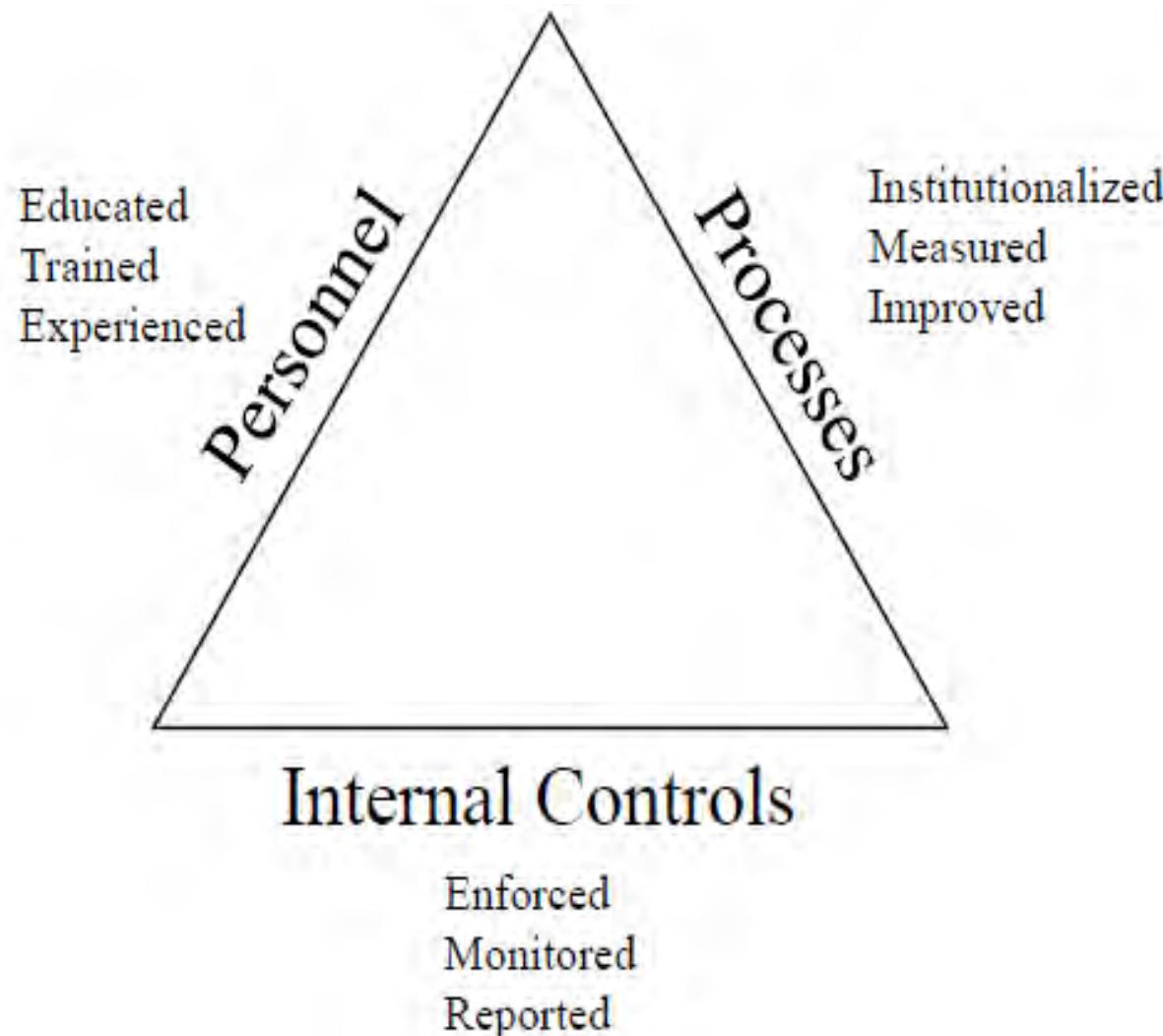
- Department of Defense (DoD) obligated over \$300B in FY2013 contracts (GAO, 2014)
- Deficiencies in DoD contract management result from lack of trained personnel, immature contracting processes, and weak internal controls (DoD, 2009, 2015)
- DoD contract management deficiencies result in higher level of vulnerability for procurement fraud



- The typical organization loses five percent of its revenues to fraud (ACFE, 2013b)
- DoD contracting workforce is key to deterring procurement fraud
- Knowledge of the procurement process and internal controls and their relationship to fraud vulnerabilities are critical



# Theoretical Foundation





- Purpose of Research: Assess DoD contracting officers' knowledge of contract management processes, internal controls, and procurement fraud schemes.



# Research Methodology

1. What is the contracting workforces' knowledge level of procurement fraud as related to contract management processes, internal control components, and procurement fraud scheme categories?
2. What is the contracting workforces' perception of procurement fraud as related to the contract management processes, internal control components, and procurement fraud scheme categories?

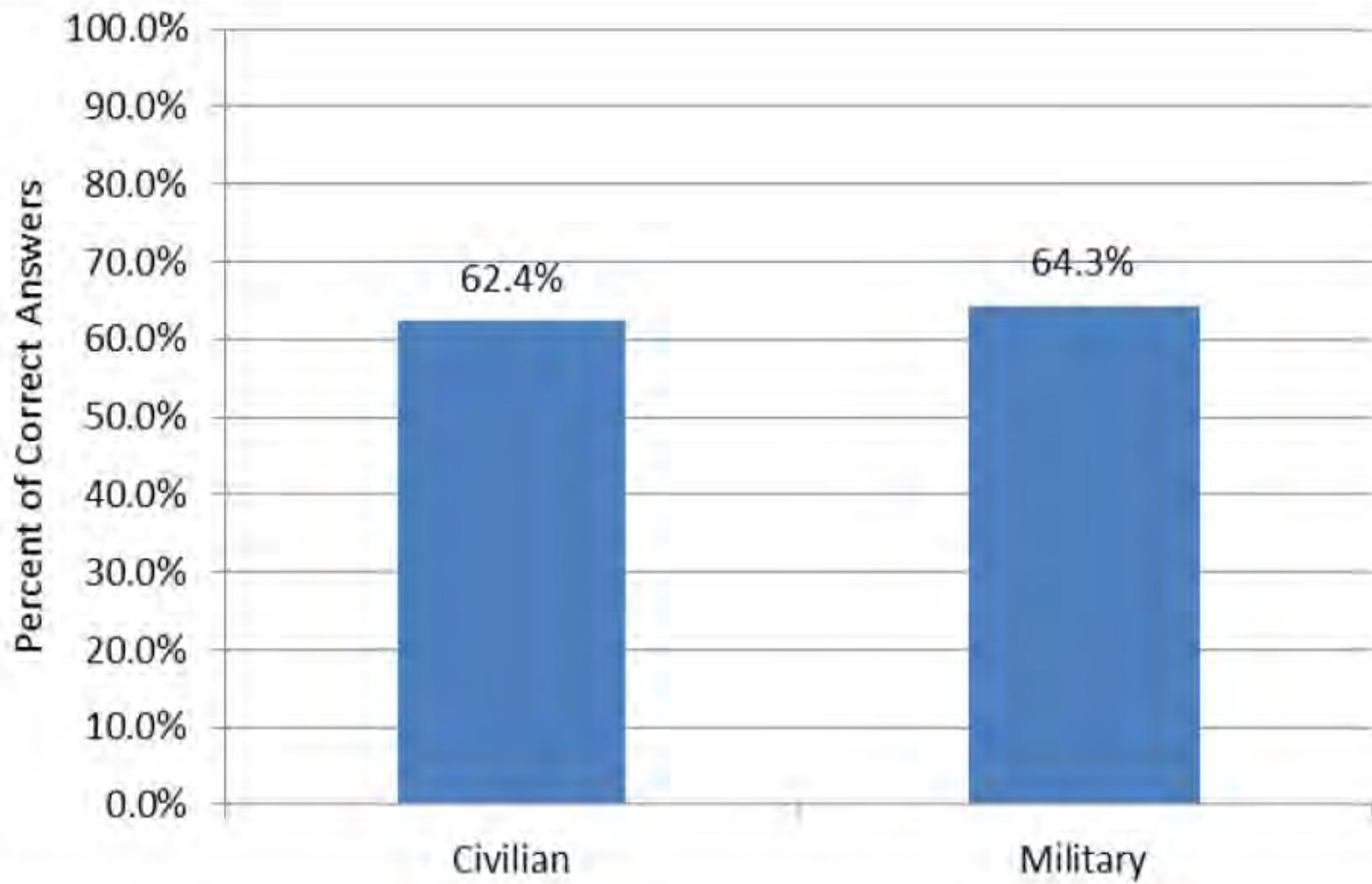


- Development of web-based assessment tool
  - Knowledge assessment items
  - Organization perception items
- Deployment of assessment tool
  - U.S. Army Mission Installation Contracting Command

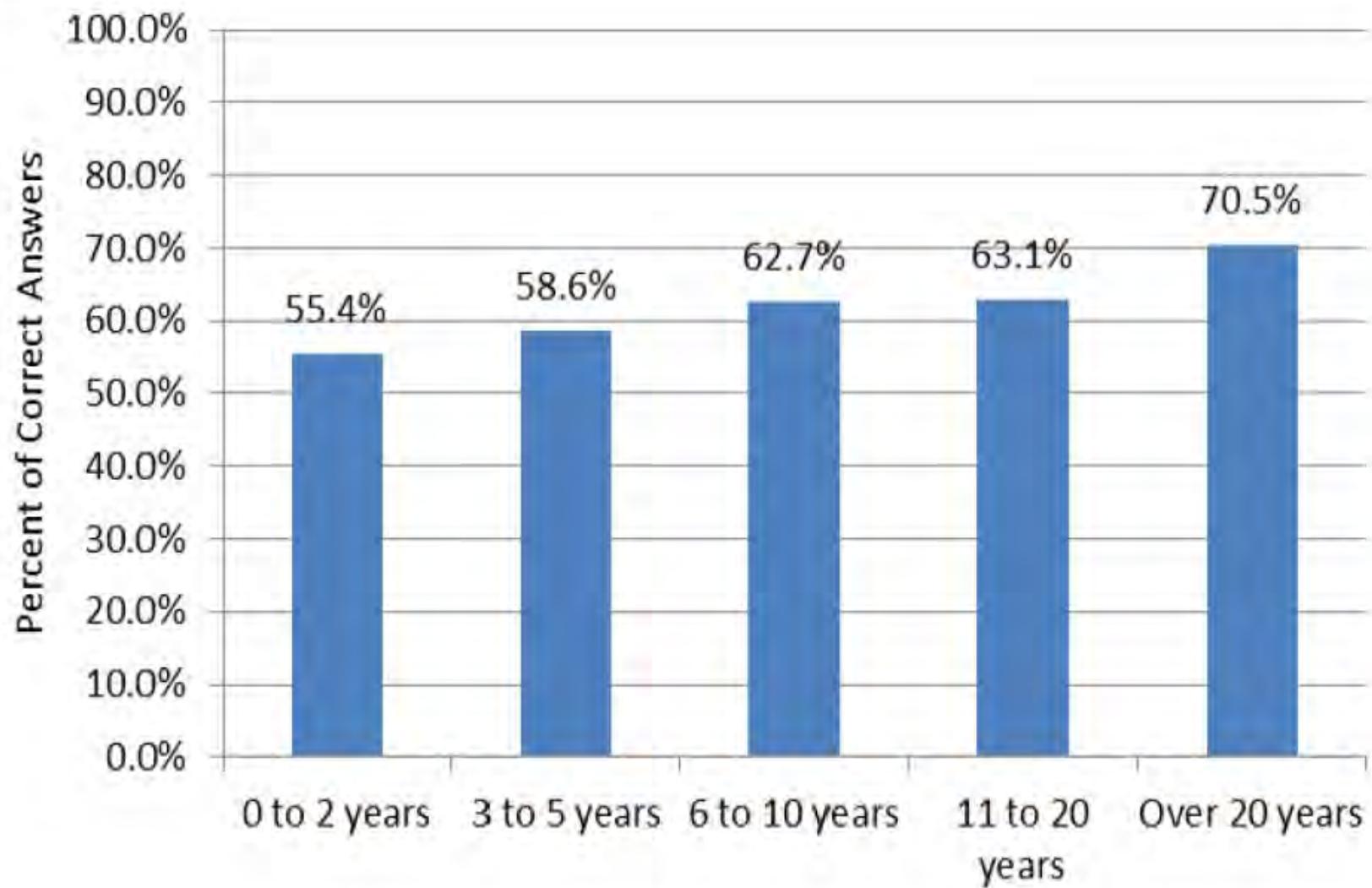
# Assessment Tool Items by Categories

Contracting Phase	Number of Questions	Procurement Fraud Scheme Category	Number of Questions	Internal Control Component	Number of Questions
Procurement Planning	5	Collusion	3	Control Environment	3
Solicitation Planning	4	Conflict of Interest	6	Risk Assessment	6
Solicitation	5	Bid Rigging	6	Control Activities	6
Source Selection	5	Billing/Cost/Pricing Schemes	4	Information and Communications	4
Contract Administration	5	Fraudulent Purchases	3	Monitoring Activities	7
Contract Closeout	2	Fraudulent Representation	4		
Total	26	Total	26	Total	26

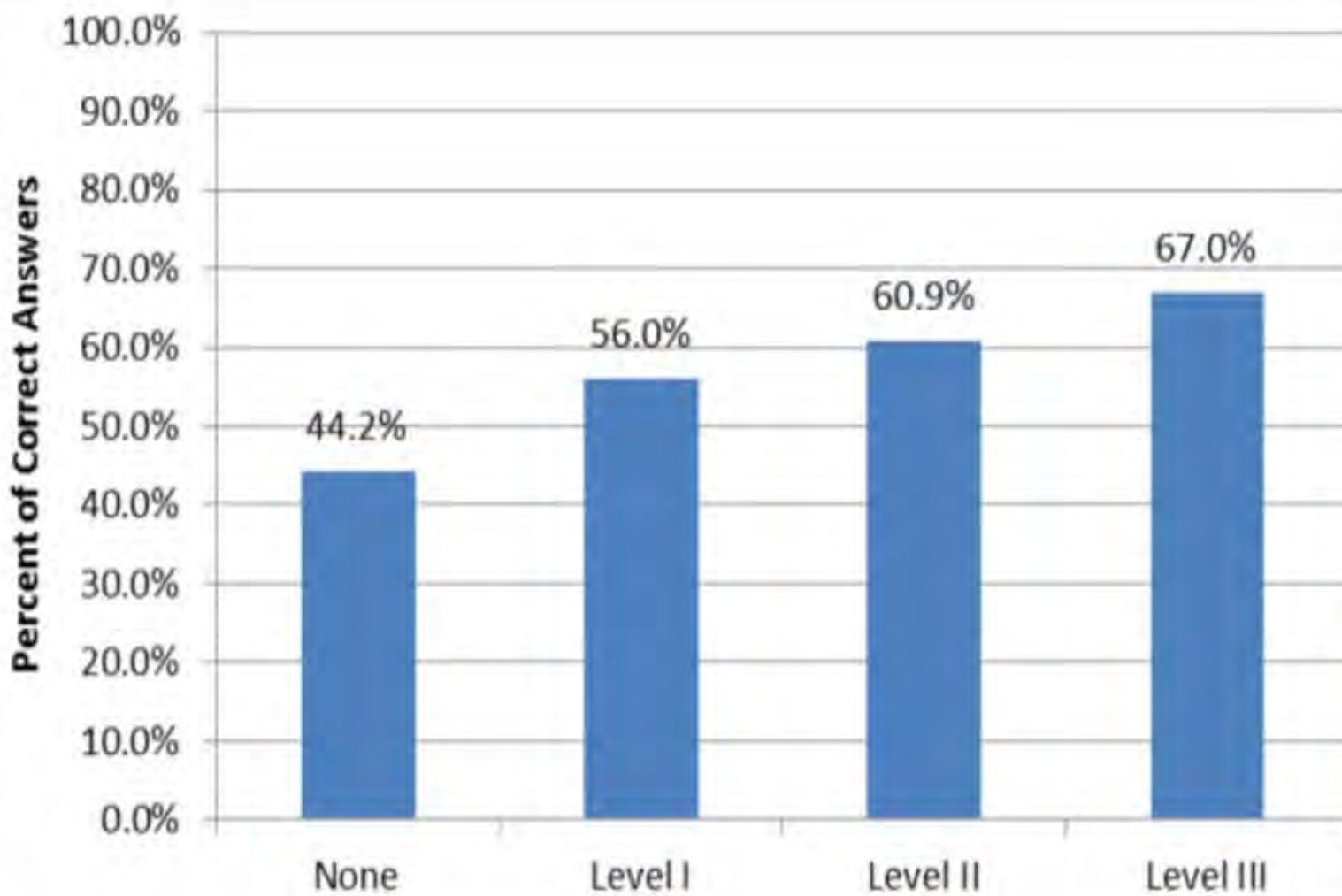
## Average Score by Employment Status



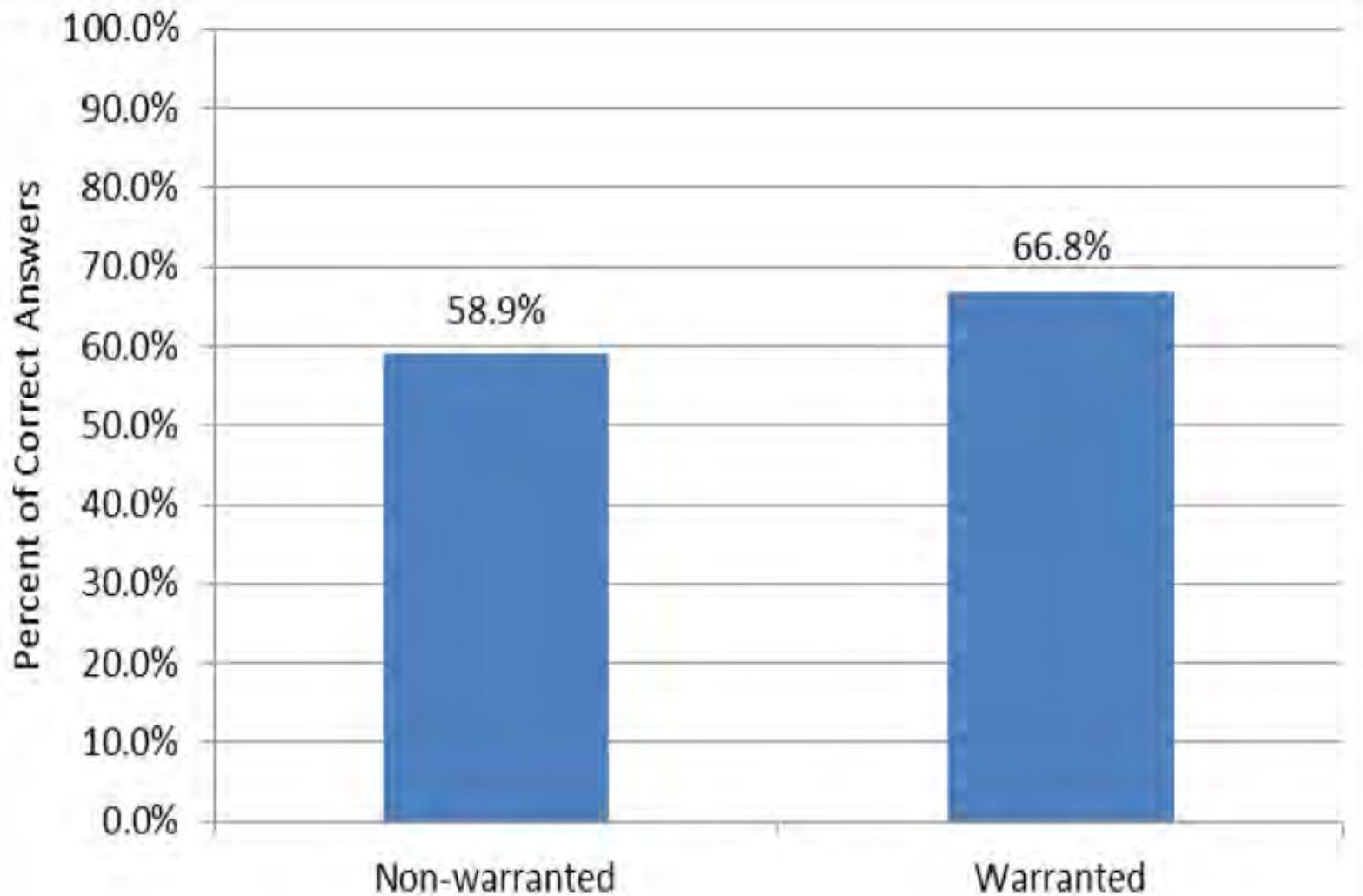
## Average Score by Experience



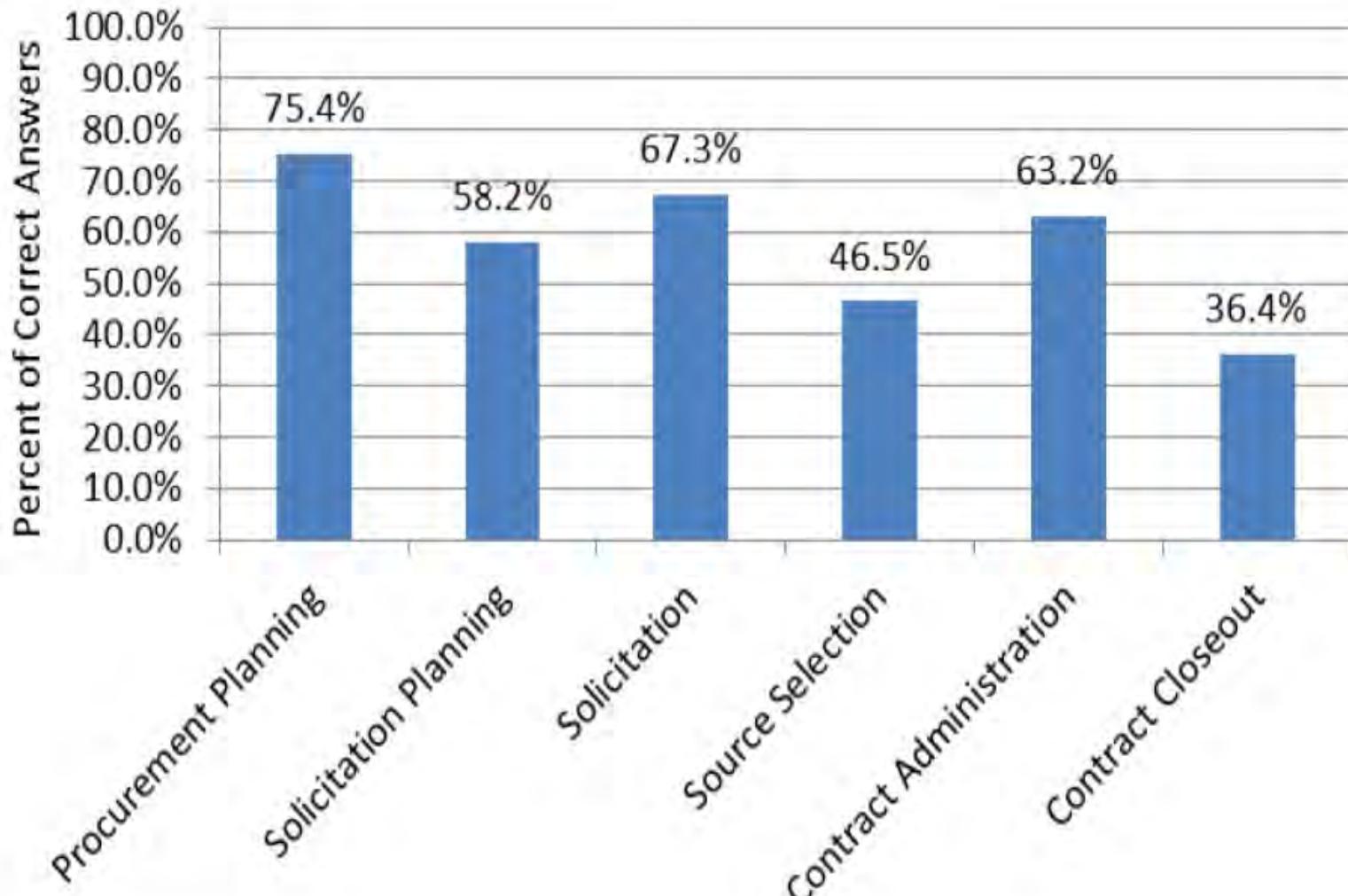
## Average Score by DAWIA Level



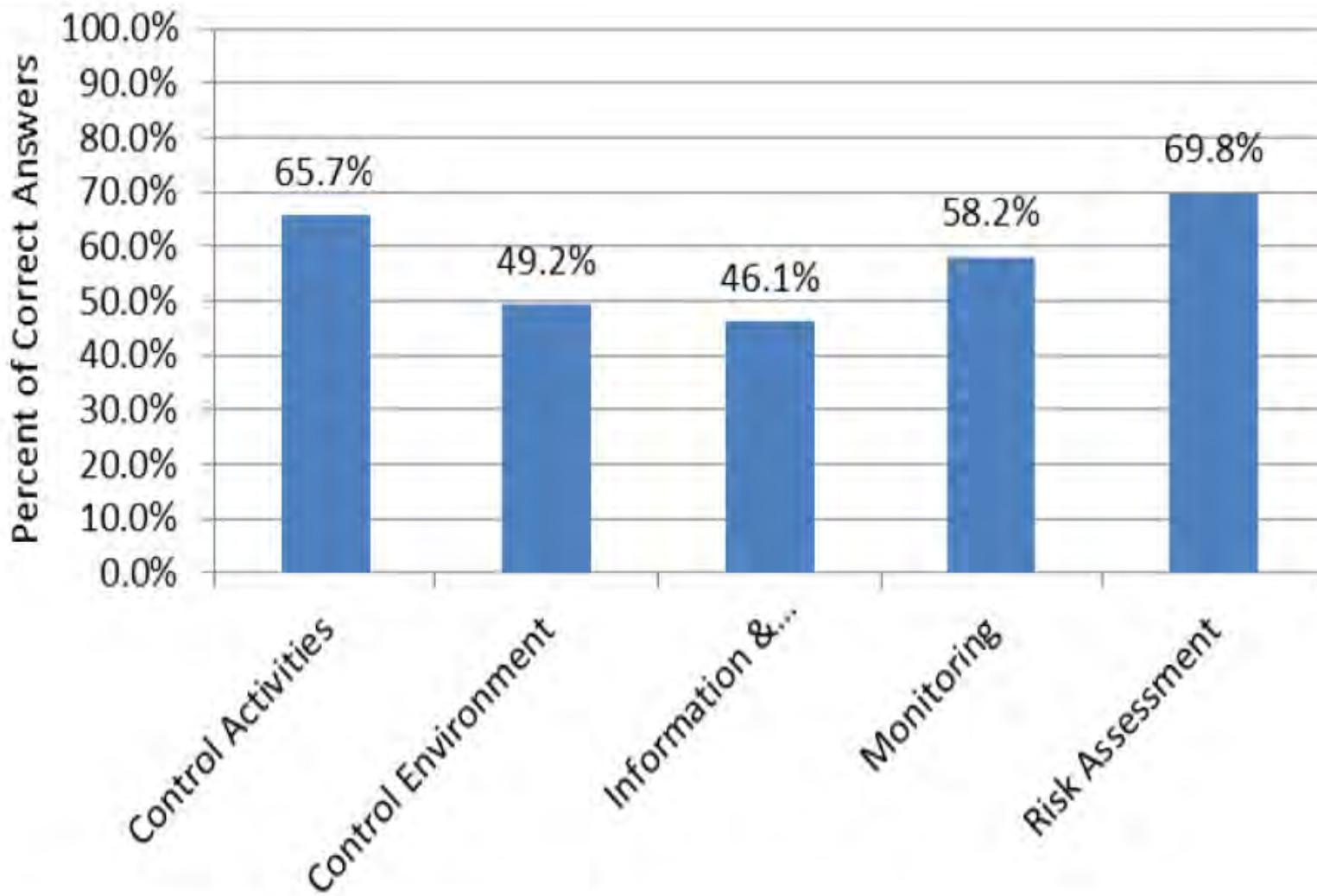
## Average Score by Warrant Status



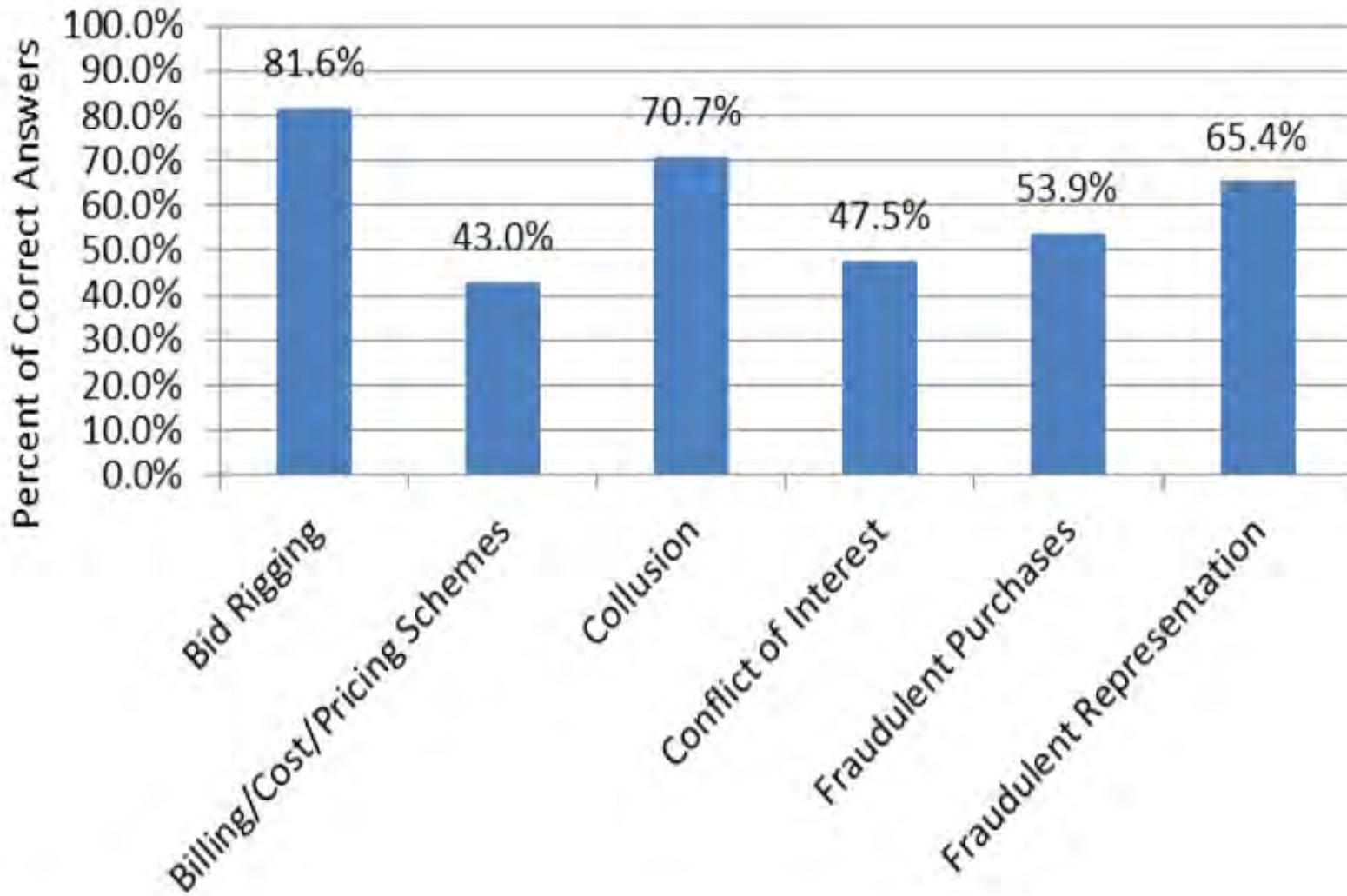
## Average Score by Contract Management Process



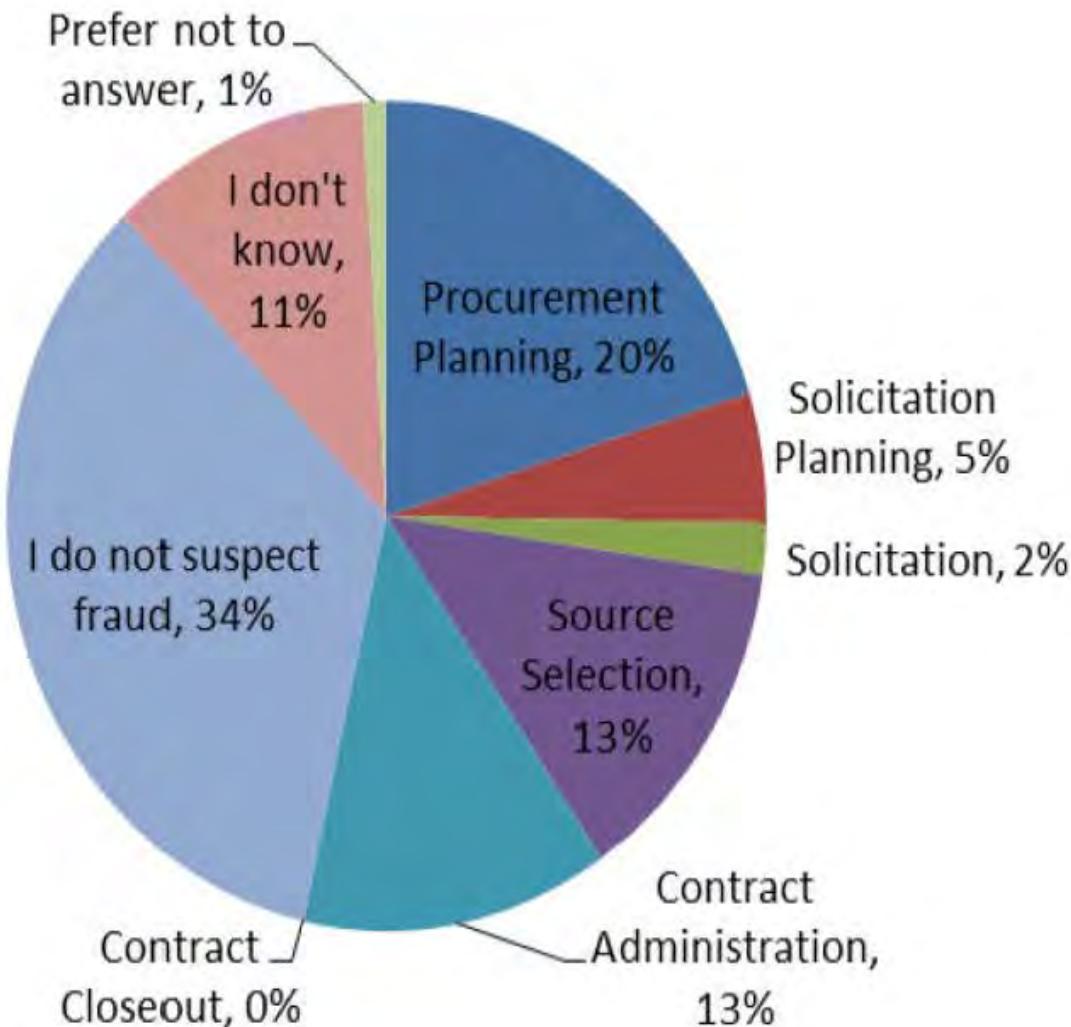
## Average Score by Internal Control Component



## Average Score by Procurement Fraud Scheme



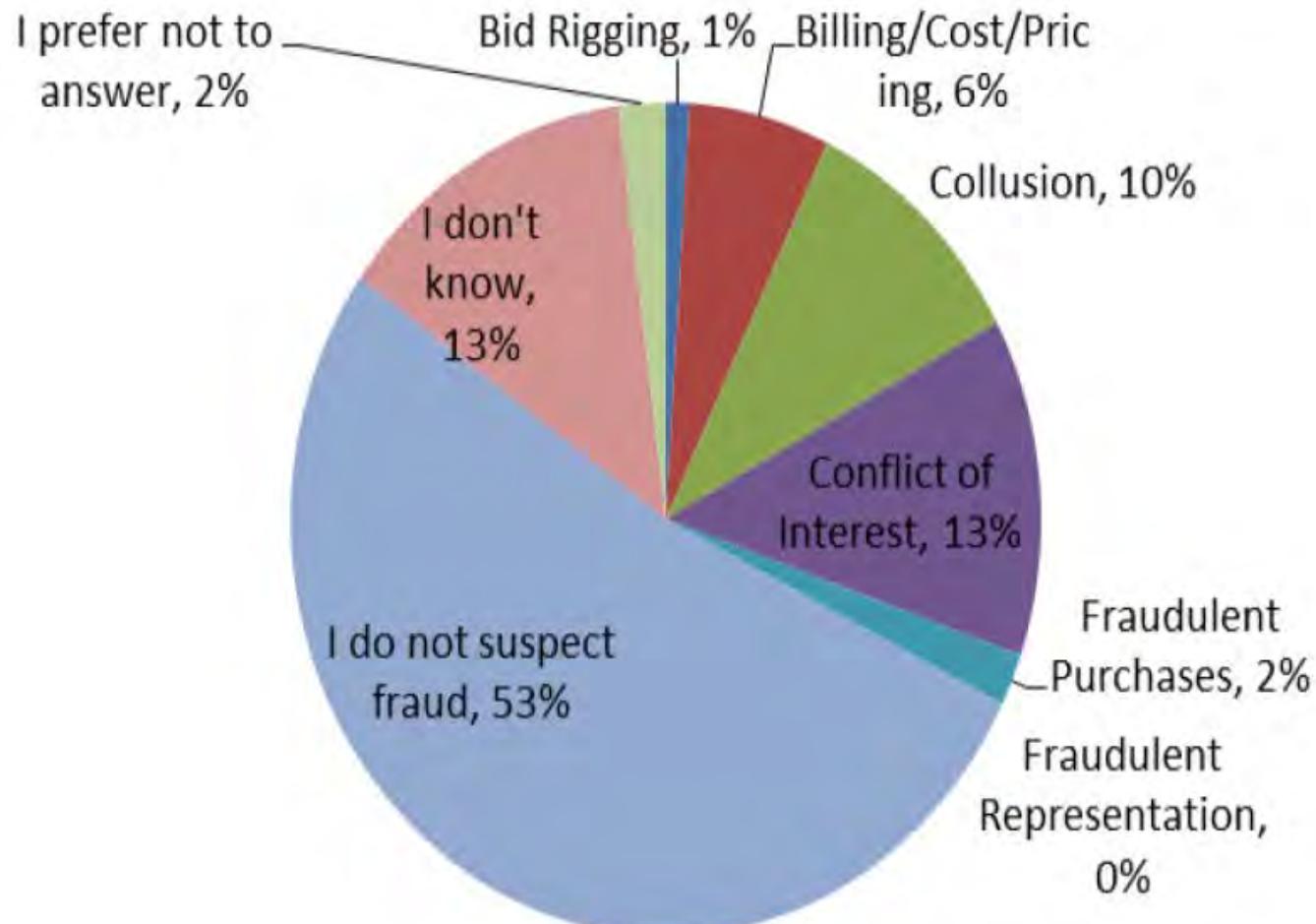
## Responses to Contract Management Phase Item



## Responses to Internal Control Component Item

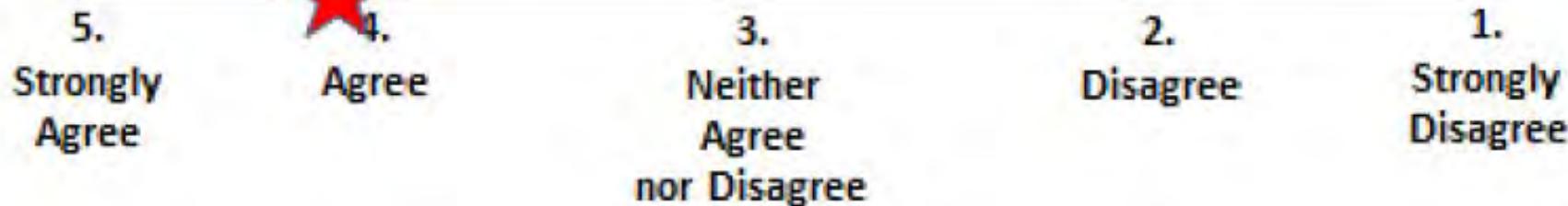


## Responses to Procurement Fraud Scheme Item



1. My department has clear lines of authority and responsibility.

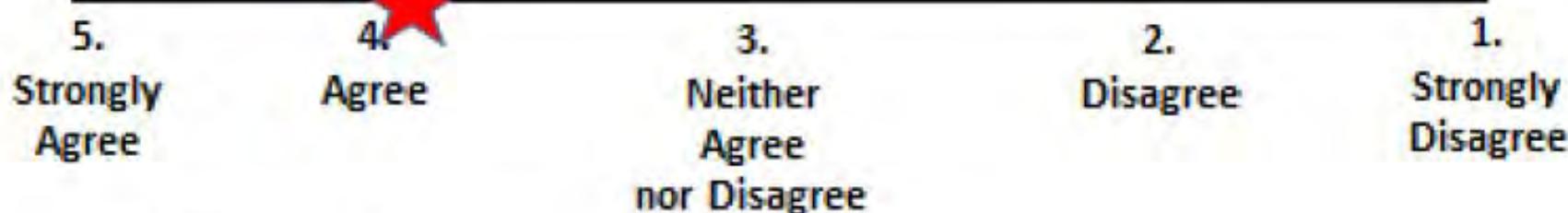
4.15



I Prefer Not to Answer: 1

2. My department is regularly reviewed by internal or external auditors.

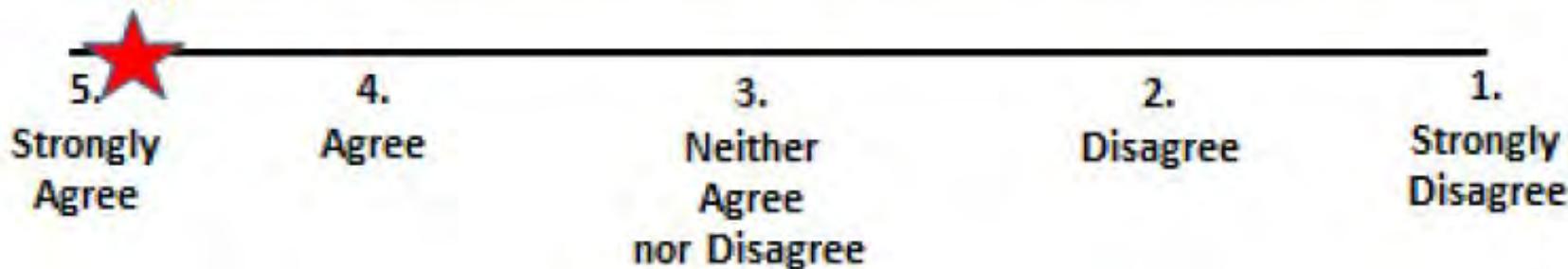
3.94



I Don't Know: 9

3. I would report fraudulent or suspicious activity if I saw or suspected it.

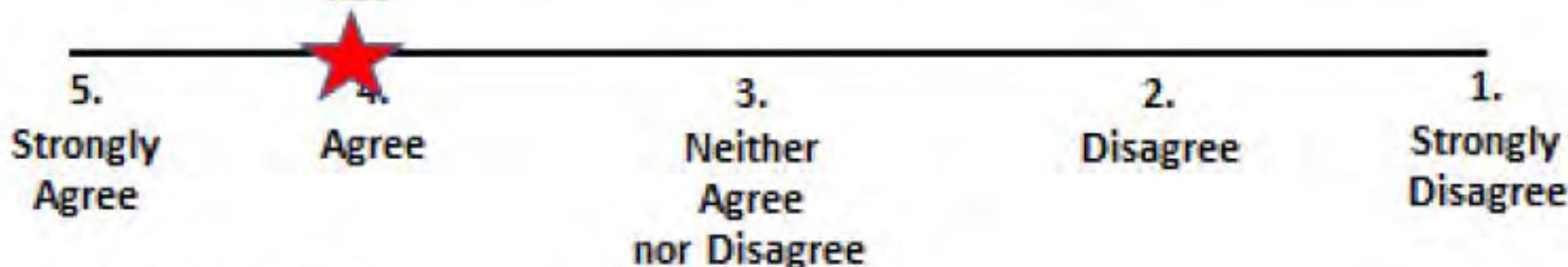
4.77



I Don't Know: 1

4. I have a clear way of reporting fraudulent or suspicious activity within my organization outside of my immediate supervisor.

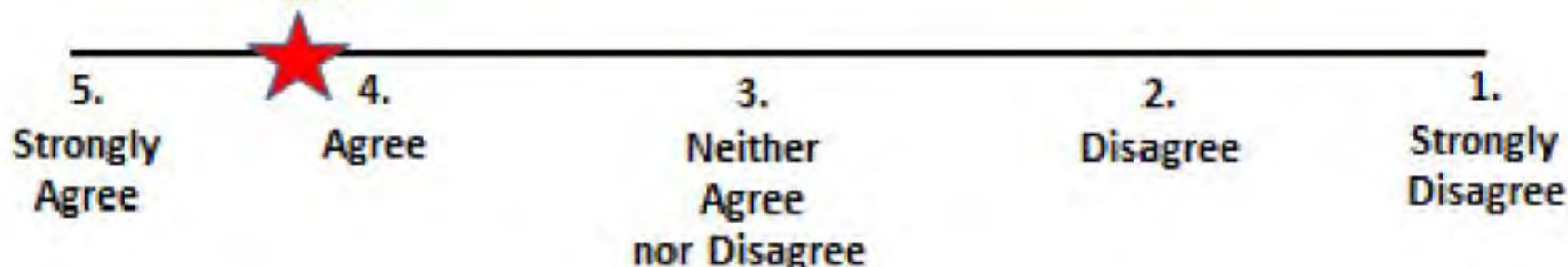
4.23



I Don't Know: 3

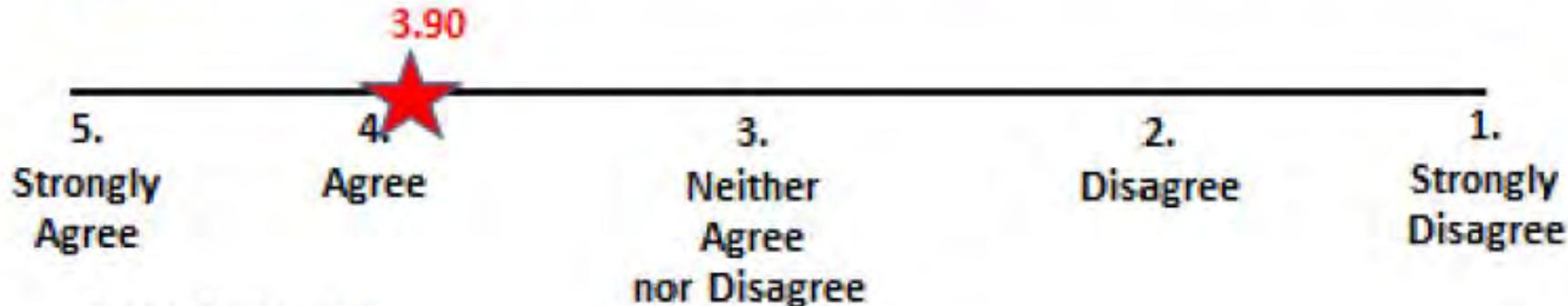
5. I know who to report to if I saw or suspected fraudulent activities.

4.31



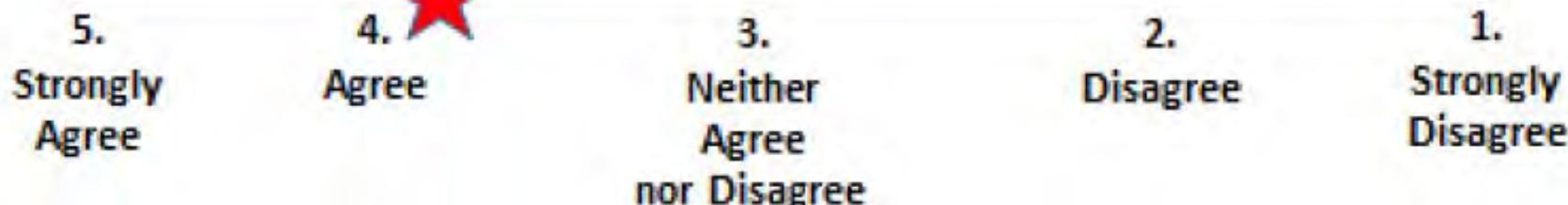
6. I have adequate knowledge of contracting fraud schemes to perform my duties.

3.90



7. Instances of reported suspected fraudulent or suspicious activity have been adequately investigated by my organization.

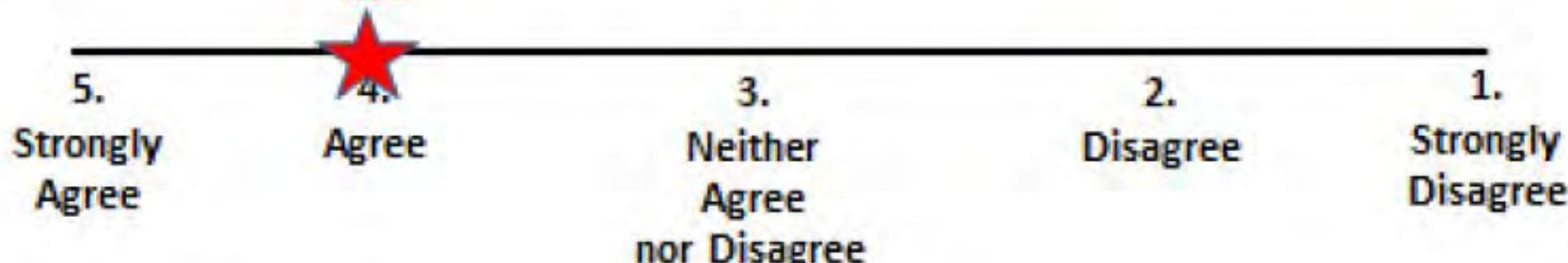
3.84



I Don't Know: 37

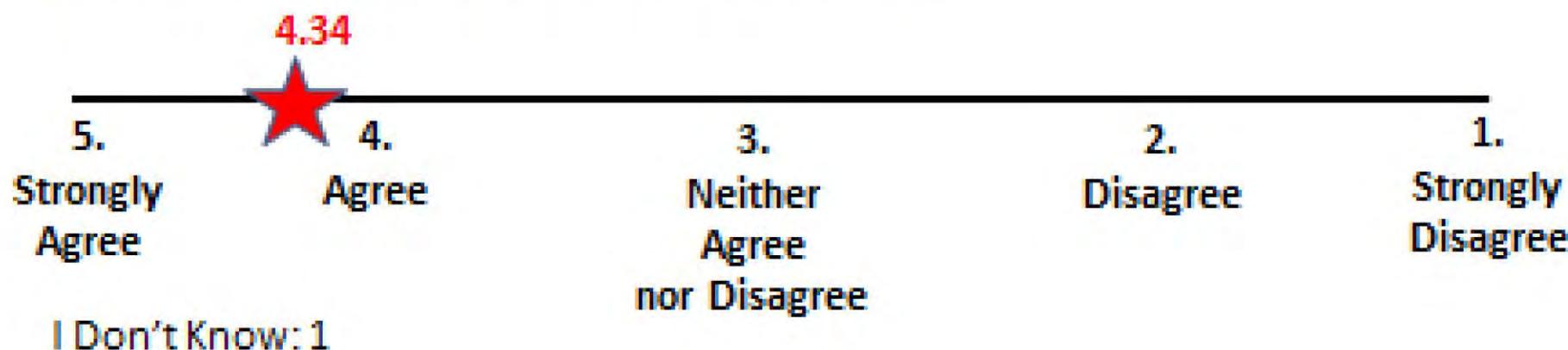
8. Employees in my organization who are found to have participated in fraudulent activities will be subject to appropriate consequences.

4.08



I Don't Know: 23

9. My organization places sufficient emphasis on the importance of integrity, ethical conduct, fairness and honesty in their dealings with employees, vendors, and other organizations.





# Implications of Findings

- Contracting officers may have a knowledge deficiency in the area of procurement internal controls.
- Contracting officers may be overly-optimistic in self-assessing their knowledge of procurement fraud schemes.
- Contracting officers' limited knowledge of procurement fraud and their perception that their organization is not susceptible to fraud may reveal that the organization could in fact be vulnerable to some form of procurement fraud.



Chang, P. W. (2013) Analysis of Contracting Processes, Internal Controls, and Procurement Fraud Schemes, MBA thesis, Naval Postgraduate School, Monterey CA.

Rendon, R. G. & Rendon, J. M. (in press).  
Auditability in public procurement: An analysis of internal controls and fraud vulnerability,  
*International Journal of Procurement Management.*



# Questions/Comments

Juanita M. Rendon  
Rene G. Rendon





# Back Up Slides

# Procurement Fraud Matrix

